Interim Results 2012
Britvic plc
Gerald Corbett
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Gerald Corbett: Okay, well should we kick off? I can't see any hands saying why we shouldn't. Welcome to our Interim Results' Presentation. I'm Gerald Corbett, the Chairman of Britvic. It's the standard format that you're all familiar with. Our Finance Director John Gibney will take you through the numbers and then our Chief Executive Paul Moody will talk about the market and about our commercial agenda.

So, John, over to you.

John Gibney: Thank you, Gerald. Good morning, everybody. As usual, we're going to be making a transcript of today's presentation available on the Investor section of britvic.com. The slides are available now, and the webcast will be available to listen to once today's presentation has finished.

Today we report our results for the 28 weeks and to the 15th of April, 2012. Comparisons are on a constant currency pre exceptional basis. And as we've now lapped a full year reporting for Britvic France, then all numbers are on a like-for-like basis in that context as well. Trading conditions in each of our markets remain challenging with consumer confidence fragile and an increase in focus on managing total basket spend. Against this backdrop, we report a solid set of results. Our revenue has grown by 1.7% with GB, France, and International all posting increases in revenue, and Ireland continuing to act a brake on the overall Group growth. As you'll recall, the first half of this fiscal year carries a burden of high raw material costs from 2011, and the benefit of the 2012 price increase only having come through late on in the half year. As a result, the half year margin is down 60 basis points and reported EBITDA is down by 6.9% to £41.9 million. The margin and profit decline are in line with our expectations and we expect to see margin growth come through in the second half as we take advantage of the price increase implemented in March. Our medium-term guidance remains the same, an average 50 bps of margin expansion on EBITA, although we expect 2012 obviously to be somewhat less than that. This margin pressure in half one is also driven the adjusted EPS down by 8.7% to 8.4 pence. This half year represents - sorry, the half year also always represents a working capital high as we build stock towards the peak trading period of the summer months, so a cash outflow is normal at this time. This year the free cash outflow is 47 million, which is £17 million less than last year. In the current challenging environment, the management continues to focus on improving cash generation as a key priority, and this focus is reflected in reduction of annualised EBIT (inaudible) a net debt ratio of 3 times and reduction in our debt by 22 million compared to this time last year. The Board has therefore proposed an interim dividend to 5.3p, which is an increase of 3.9% on last year, consistent with our stated progressive dividend policy.

Turning now to the segmental reporting, starting with GP carbonates. Firstly, it's worth remembering that our prior year comparison was very strong in half one last year with revenues up by 8.3%. We've seen a continuation of this impressive

track record with both volume and ARP growth coming through in the half year. Volume is well ahead of the market at 6% and volume - - sorry, and ARP growth is up by 0.6%. Volume growth has been driven by a particularly strong performance from Pepsi and Mountain Dew Energy and underpinning that performance has been the strength of our innovation and marketing plans with 250 mil cans, the Joint Power of One Initiative with Walkers Doritos and our Transform your Patch campaign all performing well. Consequently Pepsi has again continued to grow both volume and value share. Just a correction here, ARP increase is actually 0.7%, which reflects the limited impact of the 2012 price increase in the half year. We've also seen an increased competitive environment develop with a higher level of promotional activity in which we have successfully participated to grow our share. Brand contribution is down 320 basis points as a result of the weak imports market and the major impact of raw materials coming through in the first half before the price increase takes effect. As I stated earlier, we expect to see margin improvement coming through in the second half as the price increase takes effect.

Moving on GB stills. Bear in mind please that the volume numbers here are adjusted to restate the effective double concentrate squash which was launched around this time last year. That will be the case for the balance of the current financial year, but next year we will return to report in volumes as sold. We have continued to see a shift away from the on-trade to the off-trade and a consumer focus on value-oriented subcategories. Within the on-trade, we're seeing consumers continue to seek out value in food in family-led outlets, and the trend that we've previously seen of substituting package stills for dispensed carbonates has continued. The combination of these two factors has had a negative impact on mix and as a result delights the underlying - - dilutes the underlying growth in ARP which was 72.1p is up by 0.6% on last year. The full benefit of the price increase will be felt in the second half of the year; however, if the shift away from on-trade and more premium subcategories continues, then this will further dilute the growth in overall ARP. Reported brand contribution and margin is up versus last year but benefits from lower A&P spend in the first half this year. This is purely a phasing issue. With a spend last year focused on launch of double concentrate, this year spend will be focused much more towards half two. The underlying brand contribution therefore is actually down year-on-year.

Turning now to our International division, which includes sales of Fruit Shoot into the U.S., franchise revenues in Australia, as well as the travel and traditional export areas. Half vol International revenue is up 10.8% on last year versus the prior year comp of plus 20%. Q2 demonstrates an acceleration of our growth up by 18.1% as Fruit Shoot distribution builds in the eight U.S. states where we've currently announced distribution. The move to a concentrate model commences in quarter three and that will then start to influence margin growth. The ARP decline you can see in half one reflects the growth of carbonates in the travel and export business. The core export markets have continued to perform well and we've recently launched Fruit Shoot in Belgium, leveraging off the launch of Teissiere Fruit Shoot in France. Fruit Shoot also is launched in Belgium under the Teissiere brand as well. Brand contribution margin is down largely as a result of A&P Investment that we've put into the franchising activity to support Fruit Shoot growth both in the U.S. and Australia.

In Ireland, trading conditions continue to be very difficult and show no signs of recovery. Whilst volumes have grown slightly by 0.5% this year, our revenues

and margins have seen a decline. Approximately half of the revenue decline is due to the falling sales of factored brands supplied through our license wholesale business. As a reminder, we report volume and ARP excluding factored brands but these are included within revenue. With the Irish pub market still declining rapidly both in number of outlets and footfall, we are selling less factored brands in this channel with no corresponding benefit in the off-trade where these factor brands are sold directly through retail and by the brand owner. On our own brands, the decline in the pub and convenience channel has had a negative mix impact on our ARP, a situation which is further amplified by a return of value decline to the soft drinks market driven primarily by increased promotional activity in the market. As a result, we've seen ARP decline by five - - sorry, by 7.5% despite the implementation of price increases across all channels. This combined with raw material cost increases has resulted in a further sharp decline in brand contribution and margin. You'll recall that we implemented some material changes to the structure of the Ireland business unit last year and whilst these have helped to mitigate the decline in the top line to some degree, it has become evident that the continued decline in the scale of the Irish market demands further restructuring of our business, and Paul will share more detail around that with you shortly on the decisive moves we are taking to address this challenge.

In France, volume was down by 4.6% in the first half. We took a decision to withdraw some distribution to the Fruité brand where were unable to agree appropriate commercial terms; however, the impact at brand contribution level is limited and does not affect our full year expectations. We've seen Teisseire Fruit Shoot continue to grow strongly and the introduction of a new pack size to Teisseire service range is showing encouraging signs of early success. Realising strong price growth in France this year was key to our business plan given the significant raw material cost increases, and we're very pleased with the ARP growth of over 11% versus last year. The growth in Q2 was lower than Q1 as a result of lapping the price increase which was implemented last year in quarter two. Overall, we saw brand contribution decline slightly to £27.1 million, down 0.4% on a constant currency basis. The margin decline of the 150 bps is largely due to phasing of A&P expenditure.

Moving on now to costs. Total A&P as a percentage of revenue is 5.3%, which is down 50 bps versus last year, with the actual spend of £33 million down 2.4 million on last year. Our full year guidance on A&P remains unchanged at 5% of revenue in line with last year, but signals a greater emphasis on our brands through the sporting summer. The increase in non-brand specific A&P at the half year should also be regarded as phasing as we anticipate a similar split as we had last year. Against the backdrop of the challenging trading environment, we're all focusing closely on all areas of cost and the impact can be seen clearly on this chart with the 3.3% reduction in our cost base below brand contribution. In supply chain, customer selling, general admin, and overheads, we have managed cost down below the 2011 level. This represents a saving in excess of £6 million and has significantly helped to mitigate the pressure on the business from increased raw material costs.

Moving further down the P&L account. As a reminder, you'll be aware that the first half is 28 week period and the second half 24 weeks, with the majority of profits being delivered in half two. Group EBIT of 40.4 million is a decline of 7.3 million on last year's EBIT of £43.6 million. Interest at 15.6 million represents a reduction of 2% on last year, reflecting the improved cash flow profile of the

business. The result in profit before tax of £24.8 million is down 10.5% on 2011. The effective tax rate of 24.6% is down 30 bps on last year, reflecting a reduction in U.K. corporation tax rates to 24% and the increase in French corporation tax rates to 36%. All these changes were enacted during our first half year. The impact on the Group's differed tax position is fully recognised in the first half year accounts. The expected full year effective tax rate therefore remains of between 25.5-and-26%.

Exceptional and other items at the half year are a net charge of 0.7 million pre-tax and zero post-tax. As you'll be aware, within exceptional and other items, we include the fair value movement of financial instruments where hedge accounting cannot be applied. In half one this was a gain of 2.4 million. The charge related to GB includes a cost of relocating the Britvic Head Office from Chelmsford to a new facility in Hemel Hempstead as we previously guided. This move completed very successfully last month, incurred a one-off cost as well as a cost of separation and support functions between Group and the business units. Wanted to highlight here as well that M&A remains a core part of the Britvic growth strategy and in the first half year, we did undertake significant due diligence on a potential strategic acquisition. In this instance, we did not progress the transaction as in our view a number of complexities associated with the potential deal and the deteriorating macroeconomic conditions outweighed the potential create - - value creation versus a price expectation. Accordingly, we decided not to progress this deal and therefore included - - incurred a (inaudible) deal cost of 2.1 million.

Whilst the next pre-tax charge of 0.7 million is immaterial to the Group, there are some material items that counter for within exceptional items which reflect the significant steps being taken to address the extremely challenging environment in Ireland. Paul will outline the actions we've taken this year later in the presentation. However, reducing our cost base and protecting long-term cash within the Ireland business is being central to this review. The net credit within Ireland reflects a material one-off gain on our pension scheme, offset by the impairment of the remaining business transformation, intangible asset being carried within Ireland, and restructuring costs associated with the material headcount reduction. Total EBIT cost continue to be a major element of our cost base in Ireland, despite the material headcount reductions made since acquisition and a two-year pay freeze. As part of the review, to address the ongoing labour costs of the Irish business to achieve a sustainable cost base, we have reached agreement with the main stakeholders to secure the future funding of the pension scheme in Ireland. The defined benefit scheme will remain in Ireland, however with the introduction of the cap on earnings. For those employees with earnings in excess of the cap, a new defined contribution scheme has been introduced. Likewise, the guaranteed pension indexation which was in place previously has also been removed, reducing the risks of the scheme and putting it on a more sustainable footing for the future. The changes we have agreed with the stakeholders now give greater security to the members of the scheme, whilst allowing for a lower and more affordable cost for the Company and reduction in the likely long-term cash contributions to the scheme. Further details of all exceptional costs can be found in note six to the accounts.

Moving on now to cash flow. The underlying pre-exceptional cash flow in half one is an outflow of 47.1 million, which is 17.1 million less than last year. This is largely due to an improvement in working capital management as we focus on

improving cash flow. Capital spend is 3.5 million lower at the half year, but bear in mind that within our full year guidance we expect higher capital spend year-on-year. Within other costs, the increased outflow this year is primarily due to the acquisition of shares required to satisfy the 2008 PSP scheme that vested this year. As highlighted earlier, net debt is now £22 million lower than at this stage last year.

Hopefully you'll be familiar with this slide on guidance, which I went through at the Investment Seminar on the 28th of March, and there are no changes to our overall guidance. Given the challenging market conditions, it is important that we remain focused on areas of the business which we most closely control. So for those areas which I've highlighted here in white, I can confirm that raw materials are fully hedged for this year within our guidance of mid-single digit inflation. PVO projects remain on track to deliver £8 million of savings this year. Our capital spend will be in line with the reduced guidance that we outlined at the Investor Seminar. Our innovation programme is expected to deliver 1-to-2% to our top line growth this year, and we have delivered price increases which will increase our ARP in the balance of the year. Whilst our medium-term revenue guidance remains intact at 4-to-6% per annum, as highlighted in Investor Seminar, we expect the items highlighted here in orange to continue to be a drag on consumer spend in the short-term. We expect to see consumers continue to focus on value-oriented products at the expense of more premium products and a consequential weakening of the imports market. This channel and product mix is likely to have negative impact on our ARP growth.

Against the continued backdrop of challenging economic conditions in all our core markets, particularly in Ireland, we have driven a real focus on managing the cost base and cash flow of the business very tightly. The benefit of our focus on cost can be seen clearly in our fixed cost and PVO programme and has helped slow the EBIT margin decline from 110 bps last year to 60 bps in the first half with only minimal benefit from the price increase which predominately benefits half two. Our focus on cash is driven an improvement in cash flow versus last year and reduced our half year debt by over £20 million. The result of the focus on elements directly within our control during challenging times is reflected in our progressive dividend policy.

And I'd now like to hand over to Paul for review of our markets.

Paul Moody: Thank you, John; and good morning, everybody. This morning I'll give an overview of the three soft drinks markets in which we operate and in particular highlight the major categories where we have leading brands. As John mentioned, there have been a number of developments recently that I will describe in a little more detail and in addition I'll take the opportunity to remind you of the marketing and innovation plans we have in place for 2012, although it will be at a higher level given the recent Investor Seminar where we provided a lot more detail.

So let me move to focus firstly on GB. This year we've seen a more subdued market volume performance in market. You will recall that the medium-term guidance indeed in line with the historical average has been a growth of the market of around 2-to-3%. To date this year we've seen volume growth of just 0.8%, demonstrating in our view that whilst a resilient category, soft drinks clearly aren't immuned to the macro pressures that we are all experiencing not just in

GB and our other markets but Europe and worldwide. Carbonates volume has grown by 2.2% and within that energy and cola have driven the growth being up by 13.2% and 2.5% respectively. Not surprisingly, fruit carbonates and lemonade volume has declined this year to date. In the still category, the kind of 0.5% has been led by pure juice, which is down by 8% this year. Now for those of you that purchase market data, it's worth noting that in squash, the volume decline in the market is largely attributable to the move that we made from single to double concentrate squash. As we move through into 2013, this issue will work its way out of the year-on-year comparisons. In the 12 weeks to the 14th of April, which is effectively our second quarter, the take-home market saw volume decline of 0.6% with carbonates seeing some limited growth of 1.3%, but stills declining at 2.4%.

Let me know turn to talk around Ireland. We're highlighting value rather than volume performance here as this gives in our view a much clearer picture of the market performance and particularly the challenges faced by both retailers, manufacturers, and brand owners. In the year to March, we've continued to see both volume and value decline in the market. As measured by Nielsen, value is down by 2% in take-home. This of course includes both grocery and convenience channels. Grocery actually saw slight value growth of 0.4% whilst the convenience channel, which has been historically a major part of the Irish retail sector, declined in value by 3.6%. And as John referred earlier, the pub and club channel continues to be under extreme pressure and saw an even weaker performance with value down by 5%. Now the underlying value decline is in fact worse as it includes the benefit of the rise in VAT from 21-to-23% that came into effect in January this year.

The last 12 weeks data demonstrates just how difficult market conditions are in Ireland with both volume and value declining further. John referenced the change programme we are undertaking in Ireland. At the start of 2011, we undertook a review of the Irish business and made a number of revisions to the model in response to the changing economic conditions. Across 2011, we saw further deterioration in that market beyond what might have reasonably been anticipated at the beginning of the year. As a result, we've taken further steps in 2012 as we aim to operate a sustainable profitable business in Ireland. Importantly, this is a multi-year programme of initiatives that will run at least until the end of 2013. During this fiscal year, we have already taken a number of actions to drive in year cost savings and improve our competitiveness. The cost savings generated will underpin the profit delivery of the Irish business. We've had to review the headcount structure in Ireland once more and have implemented a change programme that will see further material reduction in numbers employed. We've also reviewed the ongoing labour costs and implemented a number of initiatives to address the cost space over time. We fully outsourced our secondary distribution operation and the range of products, especially the factored brands we sell in the license wholesale channel, has been optimised to save both cost and reduce complexity.

In France, where the market data is supplied not by Nielsen but by IRI, the trends are somewhat different to those I've described for GB and Ireland. Overall, the volume growth in France is 1% this year, similar to GB, but the growth is very much driven by stills and not by carbonates. Stills volume growth is 1.6% whilst carbonates have actually declined by 0.4%, albeit they have achieved some value growth. The stills volume growth has been surpassed by value growth of

7.8%. And as you can see here, syrups have been a key part of that value growth up 10.3% this year. Fruit Shoot... Fruit Shoot, (inaudible) in slip. Fruit juice, iced tea, and fruit drinks have also grown value ahead of the market. We've highlighted syrups and fruit juice here as they are the two main categories that we operate in. The increased raw material cost is necessitated a requirement to raise prices and therefore grow value and in January we also saw the implementation of the sugar tax in France. In syrups, the volume growth has been more of the order of 5% whilst juice volumes actually declined 0.4%. As a note, whilst it's not impacting our business, the carbonates sector has been led by cola with a decline of 1.9%.

At the Investor Seminar, we showcased in detail our innovation and marketing plans for 2012. As you can see from this slide, we have a comprehensive innovation programme across the business units and the brand portfolio. In GB, we are investing heavily behind the J_20 and Fruit Shoot brand re-launches to ensure that they remain relevant for consumers and maintain their premium positions. Both of these brands are number one in their respective categories and this further investment will cement their future success. In Ireland, despite the very difficult trading conditions, we are investing in a major overhaul of the Ballygowan brand. Not only is the brand undertaken an image refresh with a new logo and bottle design, but it was also taken the opportunity to revisit the pack architecture as we look to ensure the brands relevance with consumers and their consumption needs and occasions. I'm also pleased to confirm that we've secured an agreement with McDonald's in Ireland for Ballygowan to be their preferred water brand. In France, we've further expanded the Teisseire brand with new flavours, but more importantly new pack sizes have been introduced into the range. These have been very successful in mitigating the impact of the high raw material inflation we have faced. And finally in recognition of the growing success of Fruit Shoot, we've introduced a new flavour specifically for the French market. Our willingness to expand the range and the demand from consumers and retailers for this new flavour should be taken as clear evidence that Fruit Shoot is working in France.

Our ambition to build a European infrastructure remains intact, as John referenced. In the first half of the year, we did have an opportunity to consider further expansion in Continental Europe through a potential acquisition. Following the thorough the due diligence process, we felt unable to proceed at this time as in our view a number of complexities associated with the transaction and the deteriorating macroeconomic risks outweigh the potential value creation versus the investment that was required. Given the current macroeconomic challenges that we face, it's unlikely that we will make any major acquisition in the current calendar year. Now this year we've seen some very good progress with the licensing and franchising part of our International expansion strategy.

At the recent Investor Seminar in March, we announced that the agreement had been reached with PBC to rollout Fruit Shoot into a third state. That third state we can now speak of is Texas, which as you'll appreciate is a large population approaching 26 million people. Now clearly this is a scalable opportunity and further cements our relationship with the Pepsi network in U.S. Adding an additional state agreement with an existing partner reaffirms the potential for Fruit Shoot. The focus remains the same, to build the brand creditability in the convenience and gas channel initially before we consider a wider gross re-rollout. Now since we last spoke to the markets, PBC have changed their name to now

be PepsiCo America Beverages, or PAB. As you'll recall, they account for 75% of the distribution of Pepsi beverages in the U.S. and are the wholly owned Bottle of PepsiCo. This new agreement complements the ones we already have with independent Pepsi bottlers, including Buffalo Rock, Gross & Jarson, and Pepsi Bottling Ventures.

We are delighted with the progress that we have made and are still seeing with Fruit Shoot in the U.S. The first batch of concentrate is now with our partner in manufacturing in PBV and indeed the first in mark U.S. - - in market U.S. manufactured Fruit Shoot has successfully rolled off the line, so we mentioned in March that we'd be moving to an in-market manufacturing base and we have now successfully moved towards that. In just over 12 months, we've seen Fruit Shoot grow its U.S. footprint from one to eight states, which have a combined population approaching 100 million people. Our focus remains on convenience and gas channel and we're on track to achieve distribution significantly in excess of 20,000 outlets by the end of our financial year. Guidance for the International business unit remains at revenue growth of 20%. We continue to take a prudent approach as we're still in the early days of establishing the brand significantly in the U.S. and indeed any additional profit is currently being reinvested to support the brands' growth momentum.

As John described, we believe we've delivered a robust set of results in the first half and have described the actions that we've taken to ensure that the business is in the strongest shape possible. The franchise business continues to build momentum and we have a strong balance of year marketing and innovation programme. As mentioned, whilst the soft drinks market is resilient, it clearly has not been immuned to the particularly poor weather that the country has experienced over the last several weeks.

The most up to date data from Nielsen for the four weeks to the 5th of May for the GB take-home market shows that it declined by 12% in volume and almost 8% in value. Key categories such as cola, fruit carbonates, water, and squash are all materially down in volume and value. However, importantly for us, our share of that market has actually increased during that period as indeed it has over the first half in total and we believe this reflects the continued success that we've enjoyed in driving our equity and our promotional programmes.

In each of our three domestic markets and indeed in our International business unit, we continue to focus on those aspects over which we have direct influence and control. The flawless execution of our marketing and innovation plans, a strong and disciplined focus on cost management, and a relentless focus on cash and working capital. It is these three elements that have contributed to our first half performance and will be fundamental to realising another robust performance in the full year.

Thanks very much. That concludes the formal presentation. As ever, John and myself will be very happy to take questions. Those of you familiar with the technology will see your mikes in front of you. If you wish to ask a question, if you grab a mike and just announce your name and your firm and then we can take questions. Thanks.

Andrea.

Andrea Pistacchi: Hi, it's Andrea Pistacchi from Citigroup. **I have two questions please, one on your fixed costs savings. You reduced fixed cost base by another 6 million in the half, that follows very good cost control, fixed cost control in fiscal '11. How sustainable is this? How... With this current environment, how long can you go on actually reducing or keeping your fixed costs completely under control? The second question is on stills. We saw a deterioration of volumes in Q2 actually on quite an easy comp and so I was wondering what in your view sequentially got worst there. Is it more the sort of competition with private label in the grocery segment or is it weakness in the on-trade? And in this environment, what is a sort of right sort of number to assume for volume growth with this economic environment for stills going forward?**

John Gibney: Hi, Andrea. I'll take the first question. Paul will take the second question on stills. In terms of fixed cost, how long is that sustainable? Well the reduction in the fixed cost base that we've put in place is clearly going to be sustained through the second half. Some of that was driven by the initiatives that we described last year in Ireland, some of it is also being just very tight cost management, and also some savings associated with restructuring that we did as we separated out the GB business unit and Group functions. So again, they are going to be sustained in our structure. We'll continue obviously to look for opportunities as we go forward. There will also we believe be probably some further fixed cost reduction coming out of the initiatives we're taking in Ireland at the moment which were in place through really into the second half, but then will sustain into the following financial year as well. So further it's just continuation of really prudent cost management, which we believe is a sensible thing to do given the current economic environment.

Paul Moody: So with regard to the stills' performance, I think there's a number of factors that play across the category. The star point I'd like to make though is that we have to recognise and remember that each of our key brands in the stills' category - Fruit Shoot in kids, J_2O in adults, and Robinsons' squash - are still very clear number on brand leaders in the market and continue to hold that position despite some fairly choppy waters for the category overall. The factors that are influencing are various and not the same for every one of the brands, so clearly, as John mentioned, J_2O will still be under some pressure because the relative underperformance of the on-premise market and indeed the leisure market generally. As John mentioned, particularly the switch by consumers from package to dispense because of the value play. With regard to Fruit Shoot, the performance of the brand has undoubtedly been impacted to a degree by a series of retailer own label me-toos which have come relative to price (inaudible) position. Interestingly, if you look at the brands' performance versus the other branded players, principally Capri Sun, has continued to perform very strongly. Robinsons, and I'm loathed to use a four-week data because that would always be slightly challenging, but Robinsons in the last four weeks as we progressively driven a much more overvalue message in the media, so double concentrate, much more for less, together with the on pack offers that we've made around getting squash closer to the point of consumption, so near the tap with a whole range of freebies including glasses in stores and so on, we've actually seen in the last four weeks a growth in our share within the squash market. Now I'd be much more confident to talk about that at the end of the summer when we've seen the full summer effect, but we are confident that the brands are going to perform well within a market that itself is under pressure and, as I mentioned in

my piece, the fruit juice market is down 8% and that would somewhat lend support to the view that consumers continue to switch away from what they perceive to be relatively high value categories and they chase down other categories. Certainly within the context of squash, Robinsons whilst its growing share sees as its primary competitor in fact on-label and again on-label would be going forward on a value play. So as we look out for the balance of the year, we would expect to see value from a significant piece of re-launch activity around Fruit Shoot, similarly around J_2O, new above the line execution for all three of our brands. And if we see a relatively benign stills market, we would expect to see growth for our brands during that period. So I think we are impacted by some economic factors, which you'll be very familiar with, but we're seeing robust performances by the brands. And with the activity in the second half, we would expect to see an improved position.

Thanks. Ian.

Ian Shackleton: Ian Shackleton from Nomura. **I think you've (inaudible) your input cost guidance for this year with single digits and I think you're pretty well hedged, but I wonder if you just give us some thoughts about looking further out. I think in particular some of the juice costs, some of the spot costs are coming down and whether we start to see a bit of easing of that pressure for next year.**

John Gibney: Good morning, Ian. The view we gave I think at the Investor Seminar was visibility is quite challenged for next year, but the best guidance we could give was probably around mid-single digit, so we certainly don't see a return to lower cost inflation coming through particularly quickly. There have been some movements, you're right in terms of some of the raw materials that we would often speak about the juice. Orange juice costs, you're right, we've seen futures come down having accelerated materially. The view we would have at the moment is that you can't actually contract anything in the market yet simply because no one knows what the crops are actually going to be like. That increase and then the subsequent decrease was actually around the contamination fear which appears to have been addressed, so that we don't believe is influencing our view yet on mid-single digit. We've seen some easing we think in PT cost, but to counter that we've actually seen some more recent increases, material increases in sugar cost again and that seems to be driven predominately by a shortage of supply. So visibility remains very challenged actually, so we wouldn't at this stage think about changing that guidance for next year of kind of mid-single digit.

Wayne.

Paul Moody: Wayne.

Wayne Collins: Hi, guys. Sorry, two questions for me. Wayne Brown from Canaccord. **First one on France, if you can just give us some sort of view as to the outlook necessarily on any contracts that you may want to exit from private label in the second half or maybe in 2013 and maybe set that against your utilisation of that fixed asset base that you have there. And then with regards to GB, if you can give us some sort of indication of what sort of price increases we should be thinking about that are going to be coming**

through in H2 and the level of promotional mix attached to those price increases. Thanks.

Paul Moody: Hi, Wayne. I'll take both of those. On France, the contracts, as you probably are aware, tend to be an annual contract negotiation, so we're actually through that cycle, so we did refer to accidents*[sic]* on distribution on Fruité brand itself due to the commercials there. So they are pretty much locked for this year. In terms of whether it would go from there on in, the decision we would always make would be around the balance between raw material costs and price increase that we felt we could get away. In terms of would we turn our back on any of those contracts, to be frank it would be dependent on what else would be available. So if we thought we could substitute that volume either within another contract or indeed as we continue to grow our branded business or if we felt there wasn't another contract which we could substitute with could we actually mitigate the fixed cost impact around that. So not particularly straightforward answer, unfortunately, but we would evaluate each contract on a case-by-case basis.

Within GB, the sort of price increase that we talked about, whilst we wouldn't disclose obviously what that price increase was per se, if I go back to the guidance that we talked about previously, then we'd have no reason really to move away from that guidance where we talked about underlying ARP increasing probably somewhere in the region of 2/2.5%. The caveat to that is, one, as you've just raised, promotional activity, and therefore part of that is dependent on reaction of consumers to promotional activity and there is quite a lot of evidence around that consumers are managing basket size and cost very, very closely, so not necessarily picking up as much on promotion as they would've done previously or indeed if they do, then kind of rationing that out in the home when they get the product home. The second element will be a mix issue, the one that I pointed to earlier in the presentation, so as we continue to see consumers move away from more premium categories and indeed more premium channels such as imports and that actually drives volume back into more deferred and also grocery channels where obviously the ARP is somewhat lower. And then the final piece on the mix issue would be around the continued shift from on to off-trades that we are seeing and even within on-trade where we're seeing customers - - sorry, consumers trade down from packaged stills to carbonated dispense obviously has a mix issue on the ARP as well. So underlying ARP, we expect to be quite strong. The degree to which that flows through entirely to our headline ARP, I think is still pretty much dependent on those mix issues.

Wayne Collins: **And would it be fair to say that the majority of that price increase more related to the strength that you're seeing in share in colas as oppose to necessarily your stills' range or would it be generally across the board?**

Paul Moody: No, the price increase has pretty much gone across the board, so both in stills and carbs.

Charles Pick: Yeah, thanks very much. Charles Pick of Numis. Just a couple of questions please. **It is possible to give a general flavour on the level of the promotional activity in the markets you're operating in now, vis-à-vis say a year ago? Is it possible to give some quantification of the savings in the Republic of Ireland please? And also can you just reaffirm that you're still on track for those synergies in France that you originally talked of €13 million in calendar year 2013?**

Paul Moody: I'll talk about the first one. In… If I look at the separate markets, certainly within GB, there is a level of activity at deal level that is not inconsistent with that which we've seen in the recent past. I think what's different is the frequency of that activity is probably greater that we would've seen this time last year, and you may remember that we talked probably around this time last year about an event when the primary cola competitor ran an aggressive buy two, get two free on two litre, which we never imagined we would see again. Well we have seen that over the last six to eight weeks. So in our view, the depth of deal hasn't increased. I might argue that would be difficult to see how that could happen, but certainly the frequency has increased. If I look at the Irish market, John made references as indeed did I to the consumer chasing value and there's no doubt that combination of the retailers pursing value can buy with brand owners trying to satisfy value are seeing a greater intensity of promotional activity in the Irish market. The one area of our business where we've not seen that evident is in France where the on-label business is dictated by the brand owner, so we have no involvement when they're in promotional activity, and syrup is historically a very, very low promotional penetrated category and we have no reason to change that as we go through the balance of year.

John Gibney: Charles, in terms of the cost savings in Ireland, we haven't actually quantified them yet probably because they still follow a work in a progress there, but they sort of (inaudible) are seeing is reduction in the overall labour cost, so I spoke about reduction in pension costs earlier. We are seeing people unfortunately exit the business again. We've also, as Paul described, outsourced our secondary distribution entirely. Probably if you're modelling it, I would suggest in the short-term the best way to do that is to assume that the cost savings will pretty much compensate for the pressure we're seeing on the trading line at the moment. But as we get more clarity later on in the year, then we'll give you more specific guidance on that.

The question in terms of the France synergies, in overall terms, the answer will be yes we remain on track to deliver the synergies. I give you two caveats to that however. One is around business transformation whereas we spoke previously we would defer an implementation of that to first calendar - - sorry, first quarter calendar 2013 at the earliest and that will slightly defer some of the savings that we have. The second element is that because of the growth of fruit juice in the U.S. and the implementation of in market production, that's actually freed up more capacity for Fruit Shoot, so we previously said we were going to invest in France and in a new line. At the moment, we think it's more appropriate to utilise our existing capacity in GB and take the on cost of shipping it over rather than invest more capital in France, so there's obviously a margin implication around that as well. Just to remind you, the capital associated with France Fruit Shoot line was around £10 million, so clearly that won't be spent until we think it's appropriate to do so. But at the moment we do, then we'll get the margin improvement associated with that. The capital associated with business transformation was 10 million as well and at the moment we've guided to 5 million this year and 5 million last year on that. So again, that was a deferral of that capital spend.

Wayne Brown: Just one last from me. **With regards to A&P spend, if you can just give us some sort of strategic view as to the phasing of the A&P spend this year versus last year. I mean clearly understand it from a GB stills perspective**

as a double concentrate, but also in light of the sporting events going on over the summer and the current trading environment as to why it's so much more heavily summer related as to necessarily building momentum into the summer period. Thanks.

Paul Moody: Yeah, thanks Wayne. The plan was always for a second half weighting in terms of the A&P. And to your point around the big events, from our own perspective, you will have seen maybe in the montage there's clearly a big programme of Pepsi activity around the EURO 2012, which we'll be participating in and we'll be - - and indeed have been running the programme. We clearly have the Wimbledon Programme, which we will be doing on the back of the special edition, but the whole Wimbledon Programme itself and Transform your Patch will continue through for the balance of year. So we never had an ambition of directly as it were going head-to-head with the Olympics, but that didn't mean we weren't going to be running our programme. So if you're watching TV over the course of next six months, you will see advertising programmes that support Fruit Shoot, that support J_2O, that support Robinsons, that support Pepsi, and support Transform your Patch, which of course is a portfolio play. So although there is inevitably quite a lot of background noise around the Olympics and indeed the Torch Run has almost been the catalyst for that, our programme was always designed around executing our equity programmes against our brands at the appropriate time and we see no reason why we would stop doing that and indeed we're very pleased with the quality of the equity programmes that we've got to run and I think again when we get to the end of the summer, we'll have a much better view about the stills brands in particular, but we're pretty confident about the resilience of the Pepsi franchise in the context of the media that we'll be running.

Okay, I think thank you very much for attending. I know that many of you are being schizophrenic because there's a small brewer that might be talking about stuff at the moment, but nonetheless, thank you very much for joining us and we'll be formally reporting on the Q3 IMS and obviously potentially in this room when we do the four prelims later in the year. So thanks very much.

Please Note: * Proper names/organisations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.